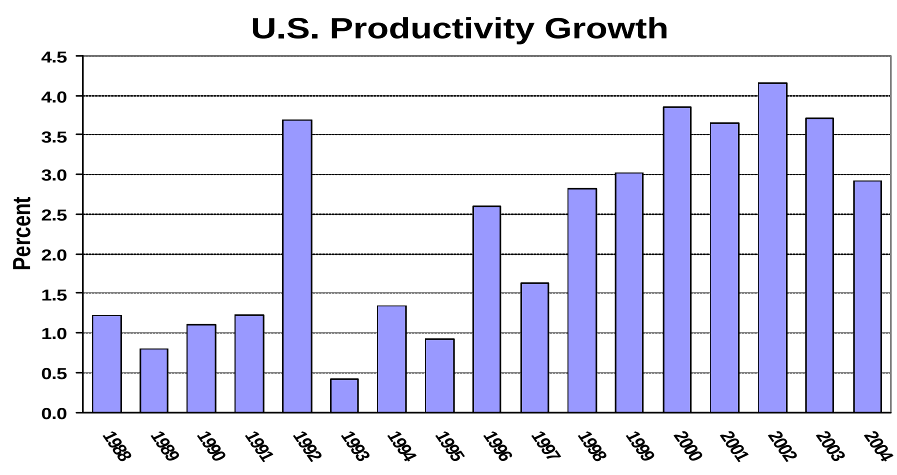
IDAHO OUTLOOK

NEWS OF IDAHO'S ECONOMY AND BUDGET

STATE OF IDAHO | DIVISION OF FINANCIAL MANAGEMENT | AUGUST 2000 VOLUME XXII NO. 1

U.S. Economic Growth is finally responding to the Federal Reserve's tightening. The National Association of Purchasing Management reported that after 18 straight months of growth, manufacturing declined slightly in August. The nation's unemployment rate rose to 4.1percent that same month. Nonetheless, the current real GDP growth forecast for 2000 is 5.2 percent, the fourth straight year of over 4 percent growth and the fastest single year since 1984. According to Standard & Poor's DRI, the real GDP growth rate will only slow to 3.6 percent in 2001, before returning to over 4 percent growth in 2002 and 2003. Since March, we have been in record expansion territory (that's when the previous post-Civil War expansion record was broken), and the outlook is for not just a broken record, but one that is decisively shattered.

Growth Records are not the only things economists are seeing shattered. Economists have long believed there is a definable relationship (a tradeoff) between labor markets and inflation. They have refined this tradeoff concept over the years, going from the "the Phillips Curve" (an inverse relationship between wage rates and the unemployment rate) to the "NAIRU" (the non-accelerating-inflation rate of unemployment). As recently as the mid-90s, many economists believed that if the nation's unemployment rate moved below 5-5½ percent, inflation was sure to accelerate (meaning that NAIRU was thought to be in this area of 5-5½ percent). Clearly, this has not happened. A number of reasons for this "break-down" have been postulated, and one of the more credible has to do with productivity growth.



Source: Standard & Poor's DRI

Productivity Growth is one of the primary factors behind the U.S. economy's stellar performance. It is also very likely the key reason behind the shattering of the presumed "growth rate/inflation" tradeoff. Computing, networking, and telecommunications technologies have advanced at a mind-numbing pace over the past decade. The Internet, intranets, virtual private networks, and other hi-tech developments have fundamentally changed the way business is done. After decades of computing advances that were largely focused within the firm, the last decade has seen a radical change in the way computers are used between firms. The digital revolution is not an exaggeration – indeed, it is turning conventional economic wisdom on its ears.

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Corporate income tax collections came in $1.0 million lower than expected in July. Filing collections were $0.4 million lower than expected, quarterly estimated payments were $0.9 million lower than expected, and miscellaneous diversions were $0.3 million lower than expected.

Sales tax collections were $0.5 million higher than expected in July. This is well within the normal range of monthly variability for this revenue category.

Product taxes were exactly on target in July. Miscellaneous revenue was $0.6 million lower in July as a result of lower-than-expected interest earnings. This was partially offset by higher-than-expected insurance premium tax collections and estate tax collections.

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General Fund Update

As of August 31, 2000

Revenue Source	FY01 Executive Estimate[3] ($ Millions)	DFM Predicted to Date ($ Millions)	Actual Accrued to Date ($ Millions)
Individual Income Tax	1,022.1	66.9	74.0
Corporate Income Tax	136.4	6.2	5.2
Sales Tax	665.7	59.0	59.5
Product Taxes[1]	20.6	1.8	1.8
Miscellaneous	106.6	12.0	11.4
TOTAL GENERAL FUND[2]	**1,951.4**	**145.9**	**151.9**

1 Product Taxes include beer, wine, liquor, and cigarette taxes
2 May not total due to rounding
3 Revised Estimate as of August 2000

The General Fund revenue forecast for FY 2001 was revised upward to $1,951.4 million in August, an increase of $170.5 million over the forecast released in January 2000. This increase of 9.6 percent is by far the largest General Fund forecast revision ever. It is due to both higher than expected revenue in FY 2000 and a higher growth rate for FY 2001 over FY 2000.

The revised August forecast for FY 2001 reflects growth of 7.2 percent over FY 2000 actual revenues. The previous January 2000 forecast projected 4.2 percent growth for FY 2001. This increase in the FY 2001 growth rate is related to the same factors that yielded much higher actual revenue in FY 2000–revised 1999 Idaho economic growth data that became available in the spring of 2000, and much better performance from the income tax than was previously expected (even allowing for the stronger economic performance). It is notable that the much higher-than-initially-reported economic growth rates for 1999 have persisted into mid-2000, with only modest indications of slowing.

Overall General Fund revenue results for July were $6.0 million above the predicted amount based on the new forecast. This excess was due entirely to the individual income tax and sales tax categories. Both the corporate income tax and the miscellaneous revenue categories came in slightly below their respective targets for July.

Individual income tax collections were considerably higher ($7.1 million) than expected in July. This was entirely the result of higher-than-expected actual withholding collections ($73.4 million versus $66.0 million predicted). July 2000 withholding collections were 25.6 percent higher than July 1999, versus 13.0 percent growth predicted. This is similar to the 26 percent year-over-year withholding growth in April 2000, and strongly suggests a quarterly bonus/option cycle is behind these remarkable withholding growth rates.

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